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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -  
OCTOBER 15-19

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2008

#### IBEX 35 REACHES NEW HIGH

1. (U) The index closed on October 18 at 15,501 points, its highest level ever, despite lingering fears of the impact of the subprime mortgage crisis. Analysts say that the good results posted by Telefonica, Santander, BBVA, Iberdrola, Endesa and other energy companies, plus the U.S. Fed's interest rate cut, have propelled the Spanish stock exchange upwards. (El Pais, 10/19/07; Expansion, 10/19/07)

#### MORE SIGNS OF END OF HOUSING BOOM

2. (U) Average prices for housing sales rose only 0.3 percent between the second and third quarters of the year, though they were 5.3 percent above their level of a year ago. This is the lowest quarterly rate of increase since 2000. Anecdotal evidence suggests that houses are taking longer to sell and that a significant number of sellers are unable to find buyers at the prices they want. In the year's second quarter, construction was completed on 20 percent more houses and apartments than a year ago, adding to the supply on the market, but construction began on 15 percent fewer dwellings than a year ago. In a sign of the extent of the building boom of recent years, the Environment Ministry announced that half of all Spanish beach-front acreage is now urban. (El Pais, 10/18/07; Cinco Dias, 10/18/07)

#### CATALAN BANKS OPTIMISTIC ABOUT ECONOMIC PROSPECTS

3. (U) EconOff met in Barcelona with Caixa Catalunya Chief Economic Ramon Roig l Sole and BancoSabadell Director of Macroeconomics Sofia Rodriguez Rico on October 18. Both banks are revising their 2008 growth estimates downwards to something between 2.7% to 3.0%. Also on October 18, BBVA revised its 2008 Spain growth forecast downwards to 2.8%. The Caixa Catalunya chief macroeconomist said that the next two to three months will be critical - he said the financial markets were already returning to normal, and if the trend persisted, Spain should fare well in 2008. Both bank representatives noted that obtaining finance for Spanish companies would be somewhat more expensive, but still much lower than by historic Spanish standards. The Caixa Catalunya economist noted that mortgage delinquency rates in Spain were much higher before the adoption of the euro, and that they are now among the lowest in the industrial world. Both banks echoed the government's line that investments in R&D and investments in capital goods will eventually improve Spanish competitiveness. Long-term, the BancoSabadell economist was most concerned about the poor state of Spanish education. (EconOff 10/18/07 meetings with Caixa Catalunya and Banco Sabadell)

#### SPANISH BANKS CONTINUE ACTIVE ABROAD

4. (U) The largest bank purchase ever, the 71-billion-euro purchase of the Dutch bank ABN Amro by Spain's Banco Santander, the Benelux-based Fortis, and Royal Bank of Scotland, was completed this week. Santander paid 19.85 billion euros for ABN Amro's Brazilian and Italian retail banking operations. In combination with its existing

Brazilian bank, it will have Brazil's third (or second, depending on the measure) largest bank. It will be Italy's seventh largest bank. Santander president Emilio Botin told reporters that Santander would next seek to expand into Asia and the U.S. Separately, Spain's other large bank, BBVA, announced that it would combine within a year its four U.S. banks, Compass, Laredo, Texas Regional, and State National. The resulting bank would have almost 50 billion dollars in assets, putting it within the US's 30 largest. (El Pais, 10/18/07; ABC, 10/18/07; Federal Reserve website)

#### BABY BONUSES EXPECTED BY YEAR'S END

15. (U) Labor and Social Affairs Minister Jesus Caldera told reporters October 18 that he expected the Senate to approve in November and the government to implement before the end of the year the proposed 2,500 euro bonus for parents of children born after July 1. The measure was approved by the

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legislature's lower house October 18. The measure is popular, though the opposition has criticized it as electorally motivated and fiscally irresponsible. In discussion of the proposal, there has been surprisingly (to us) little mention of the low birth rate of native-born Spanish women, which has fallen well below replacement level in the last decade. (Europa Press, 10/18/07)

#### TAKEOVER BIDS HEATING UP FOR IBERIA AIRLINES

16. (U) Iberia Airlines, the largest airline in Spain and fourth largest in Europe is being courted by various consortiums wishing to purchase the company. A consortium led by Texas Pacific Group and British Airways has formally submitted a bid to Iberia; a counterbid by an Air-France-KLM led consortium appears to be coming soon as well. Both consortiums must partner with Spanish firms to comply with air services agreements between Spain and non-EU countries (or non-Open Skies agreement countries). These agreements require that Iberia remain 51 percent Spanish-owned to retain its right to fly to these countries from Spain. Otherwise the highly lucrative Latin American market would be at risk. (Newspaper and Iberia websites)

#### MADRID TO HOST 19TH WORLD PETROLEUM CONGRESS IN JUNE 2008

17. (U) Representatives from governments, oil and gas industry companies, and stakeholders from around the world will come together in Madrid from June 29th until July 3rd 2008 for the 19th World Petroleum Congress. Congresses are held every three years in coordination with the World Petroleum Council (WPC), which includes 61 member countries representing over 90 percent of the world's major oil and gas producing and consuming nations. The Congresses, which have traditionally covered aspects of the industry, ranging from exploration to downstream activities, have recently expanded to include topics such as petroleum finance, management and environmental issues. The theme for the 2008 congress will be "A World in Transition: Delivering Energy for Sustainable Growth." (Econoff 10/18/07 meeting)

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